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Big Mac Index for 2002

The Economist's Big Mac Currencies

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Big MacCurrencies

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From The Economist print edition

In the history of the Big Mac index, the dollar has never been more overvalued

CURRENCY forecasters have had it hard in recent years. Most expected the euro to rise after its launch in 1999, yet it fell. When America went into recession last year, the dollar was tipped to decline; it rose. So to help forecasters really get their teeth into exchange rates, THE ECONOMIST has updated its Big Mac index.

Devised 16 years ago as a light-hearted guide to whether currencies are at their "correct" level, the index is based on the theory of purchasing-power parity (PPP). In the long run, countries' exchange rates should move towards rates that would equalise the prices of an identical basket of goods and services. Our basket is a McDonald's Big Mac, produced in 120 countries. The Big Mac PPP is the exchange rate that would leave hamburgers costing the same in America as elsewhere. Comparing these with actual rates signals if a currency is under- or overvalued.

The first column of the table shows the local-currency prices of a Big Mac. The second converts these into dollars. The average American price has fallen slightly over the past year, to \$2.49. The cheapest Big Mac is in Argentina (78 cents), after its massive devaluation; the most expensive (\$3.81) is in Switzerland. By this measure, the Argentine peso is the most undervalued currency and the Swiss franc the most overvalued.

The third column calculates Big Mac PPPs. Dividing the Japanese price by the American price, for instance, gives a dollar PPP of ¥105, against an actual exchange rate of ¥130. This implies that the yen is 19% undervalued. The euro is only 5% undervalued relative to its Big Mac PPP, far less than many economists claim. The euro area may have a single currency, but the price of a Big Mac varies widely, from EURO2.15 in Greece to EURO2.95 in France. However, that range has narrowed from a year ago. And prices vary just as much within America, which is why we use the average price in four cities.

The Australian dollar is the most undervalued rich-world currency, 35% below McParity. No wonder the Australian economy was so strong last year. Sterling, by contrast, is one of the few currencies that is overvalued against the dollar, by 16%; it is 21% too strong against the euro.

Overall, the dollar now looks more overvalued against the average of the other big currencies than at any time in the life of the Big Mac index. Most emerging-market currencies also look cheap against the dollar. Over half the emerging-market currencies are more than 30% undervalued. That implies that any currency close to McParity (eg, the Argentine peso last year, or the Mexican peso today) will be overvalued against other emerging-market rivals.

Adjustment back towards PPP does not always come through a shift in exchange rates. It can also come about partly through price changes. In 1995 the yen was 100% overvalued. It has since fallen by 35%; but the price of a Japanese burger has also dropped by one-third.

Every time we update our Big Mac index, readers complain that burgeronomics does not cut the mustard. The Big Mac is an imperfect basket. Hamburgers cannot be traded across borders; prices may be distorted by taxes, different profit margins or differences in the cost of non-tradable goods and services, such as rents. Yet it seems to pay to follow burgeronomics.

In 1999, for instance, the Big Mac index suggested that the euro was already overvalued at its launch, when nearly every economist predicted it would rise. Several studies confirm that, over the long run, purchasing-power parity--including the Big Mac PPP--is a fairly good guide to exchange-rate movements.

Still, currencies can deviate from PPP for long periods. In the early 1990s the Big Mac index repeatedly signalled that the dollar was undervalued, yet it continued to slide for several years until it flipped around. Our latest figures suggest that, sooner or later, the mighty dollar will tumble: relish for fans of burgeronomics.

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The hamburger standard

	Big Mac prices		Implied PPP* of the dollar	Actual dollar exchange rate 23/04/02	Under(-)/over(+) valuation against the dollar, %
	in local currency	in dollars			
United States [†]	\$2.49	2.49	-	-	-
Argentina	Peso 2.50	0.78	1.00	3.13	-68
Australia	A\$3.00	1.62	1.20	1.86	-35
Brazil	Real 3.60	1.55	1.45	2.34	-38
Britain	£1.99	2.88	1.25 [‡]	1.45 [‡]	+16
Canada	C\$3.33	2.12	1.34	1.57	-15
Chile	Peso 1,400	2.16	562	655	-14
China	Yuan 10.50	1.27	4.22	8.28	-49
Czech Rep	Koruna 56.28	1.66	22.6	34.0	-33
Denmark	DKr24.75	2.96	9.94	8.38	+19
Euro area	€2.67	2.37	0.93 [§]	0.89 [§]	-5
Hong Kong	HK\$11.20	1.40	4.50	7.80	-42
Hungary	Forint 459	1.69	184	272	-32
Indonesia	Rupiah 16,000	1.71	6,426	9,430	-32
Israel	Shekel 12.00	2.51	4.82	4.79	+1
Japan	¥262	2.01	105	130	-19
Malaysia	M\$5.04	1.33	2.02	3.8	-47
Mexico	Peso 21.90	2.37	8.80	9.28	-5
New Zealand	NZ\$3.95	1.77	1.59	2.24	-29
Peru	New Sol 8.50	2.48	3.41	3.43	-1
Philippines	Peso 65.00	1.28	26.1	51.0	-49
Poland	Zloty 5.90	1.46	2.37	4.04	-41
Russia	Rouble 39.00	1.25	15.7	31.2	-50
Singapore	S\$3.30	1.81	1.33	1.82	-27
South Africa	Rand 9.70	0.87	3.90	10.9	-64
South Korea	Won 3,100	2.36	1,245	1,304	-5
Sweden	SKr26.00	2.52	10.4	10.3	+1
Switzerland	SFr6.30	3.81	2.53	1.66	+53
Taiwan	NT\$70.00	2.01	28.1	34.8	-19
Thailand	Baht 55.00	1.27	22.1	43.3	-49
Turkey	Lira 4,000,000	3.06	1,606,426	1,324,500	+21
Venezuela	Bolivar 2,500	2.92	1,004	857	+17

Sources: McDonald's; *The Economist*

*Purchasing-power parity: local price divided by price in United States

[†]Average of New York, Chicago, San Francisco and Atlanta

[‡]Dollars per pound [§]Dollars per euro

The additional hamburger standard

	Big Mac prices		Implied PPP* of the dollar	Actual dollar exchange rate 23/04/02	Under(-)/over(+) valuation against the dollar, %
	in local currency	in dollars			
United States [†]	\$2.49	2.49	-	-	-
Aruba	Florin 2.34	1.31	0.94	1.79	-47
Bahrain	Dinar 0.85	2.25	0.34	0.38	-9
Belarus	Rouble 2,280	1.31	916	1745	-48
Colombia	Peso 5,700	2.52	2,289	2,261	+1
Costa Rica	Colon 875	2.49	351	351	nil
Croatia	Kuna 14.9	1.80	5.98	8.29	-28
Dominican Republic	Peso 50.00	2.91	20.1	17.2	+17
Estonia	Kroon 28.5	1.62	11.4	17.6	-35
Guatemala	Quetzal 16.00	2.03	6.43	7.90	-19
Iceland	Krona 399	4.14	160	96.3	+66
Jamaica	Jamaican \$120	2.53	48.2	47.4	+2
Kuwait	Dinar 0.65	2.12	0.26	0.31	-15
Macau	Pataca 11.2	1.39	4.50	8.03	-44
Morocco	Dirham 23.00	1.99	9.24	11.53	-20
Norway	Kroner 35.00	4.09	14.1	8.56	+64
Oman	Rial 0.90	2.34	0.36	0.39	-6
Qatar	Riyal 9.00	2.47	3.61	3.64	-1
Saudi Arabia	Riyal 9.00	2.40	3.61	3.75	-4
Slovakia	Koruna 63.00	1.35	25.3	46.8	-46
Slovenia	Tolar 430	1.70	173	253	-32
Suriname	Suriname guilder 6,000	2.75	2,410	2,179	+11
Ukraine	Hryvna 8.79	1.65	3.53	5.33	-34
UAE	Dirham 9.00	2.45	3.61	3.67	-2
Uruguay	Peso 28.00	1.66	11.2	16.8	-33
Yugoslavia	Dinar 85.00	1.25	34.1	67.8	-50

*Purchasing-power parity: local price divided by price in United States

[†]Average of New York, Chicago, San Francisco and Atlanta

Sources: McDonald's; *The Economist*

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